

Managing service resources

Introduction

“Before the battle it’s all strategy and tactics, but once the enemy is engaged it’s all logistics”

Norman Schwarzkopf – about ‘managing’ Desert Storm 1992

This chapter discusses the major issue that determines the quality of service delivered: the so called resource dilemma, or capacity constraint, and the various strategies and policies marketers of service products have evolved to cope with this important influence on their ability to provide excellent service profitably.

Resource dilemma – capacity constraint

The ability to provide the timely and efficient service process that will satisfy and delight the customer is critically constrained by the capacity of the resources available to the firm, and how they are managed.

Towards the end of the last chapter we saw that the service delivery system is a critical ‘leg’ of the Service Triangle, and the delivery system can only function to affect when it has adequate resources on-stream and at the right time.

The problem

As discussed prior, often the main part of the service product consists of the use of the firm’s resource over time. This resource is frequently people but

can also be hardware such as computer capacity, rolling stock, hotel beds, seats in the theatre et al, or some combination or permutation of these and more.

It is not just the quantity of this resource that constrains the capacity to deliver the service to the required standard but also (and in many cases mainly), the quality and reliability of this resource. Quality can deteriorate if the people providing the service are tired or over stressed. Old and/or ill-maintained equipment will let down the service deliverers usually when it matters most. *(This author's equivalent of Murphy's Law.)*

As we have just discussed in Chapter 8, successful marketing of the firm's service depends on a consistent quality of performance; it is **the main part** of the firm's marketing. However, the level of demand in any given marketplace will fluctuate over time, there will be more customers to be served at some times than at others. This cycle can be daily, take place over a week, over a year, be tied to some other phenomena such as the weather or appear to be totally unpredictable.

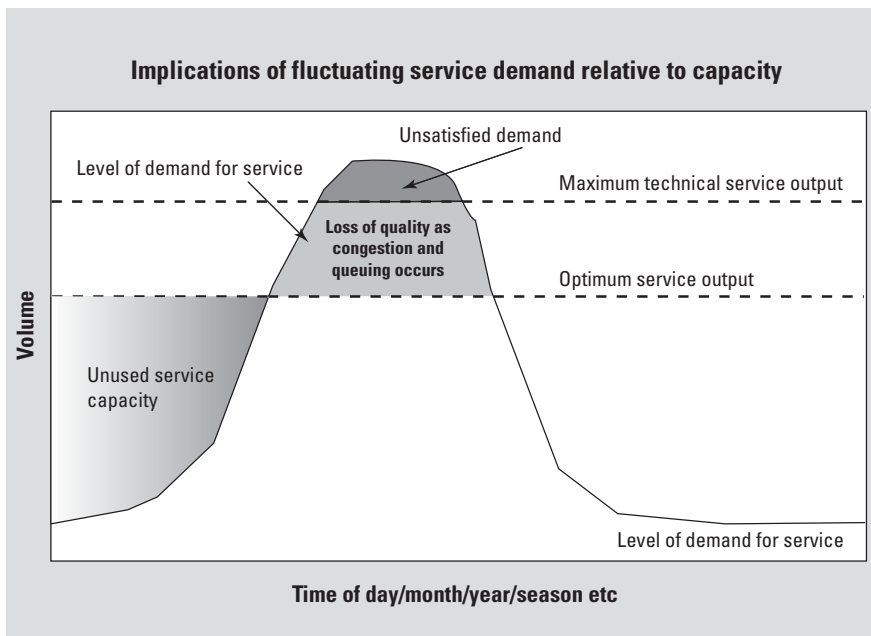


FIG 9.1: IMPLICATIONS OF FLUCTUATING SERVICE DEMAND RELATIVE TO CAPACITY

Consider Fig 9.1 above, the 80/20 Perato ratio (or something close) will frequently apply, in that for 80% of the time the market is slack, but for some 20% of the time it experiences peak demand. At peak times the key service resources come under more strain that it experiences at slack (normal) times.

Unless there are strategies to cope at times of peak demand, there is a greater probability that the quality of the service will suffer, than when the market is slack.

But whatever the circumstances, poor service delivery is the service marketer's problem, not the customer's.

If 'average demand' is greater than 80% of capacity, the firm is in trouble. Experience shows that in these cases the level of demand will too frequently be in excess of 'maximum technical output' causing untenable levels of customer dissatisfaction – leading to customer disaffection and revenge.

The service marketer must provide adequate resource/capacity to deliver their service to the customer, and yet at the same time ensure that the costs of doing so are reasonable and the firm can still make a profit.

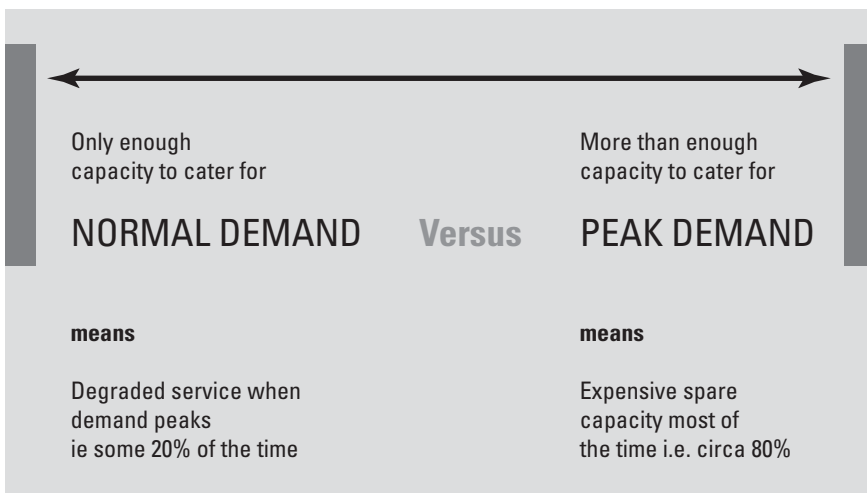


FIG 9.2: THE RESOURCE DILEMMA

Figure 9.2. encapsulates this vital issue, the service marketer must produce a strategy, which addresses this dilemma.

The right hand side of the diagram describes the sort of strategy adopted by engineers when designing bridges or North Sea oil rigs. These, when translated to the context of service, mean that the marketer provides more than enough resource capacity to satisfy the largest, reasonably foreseeable peak demand (and then some extra for safety). These resources are expensive – so unless the customer is unwilling, they must be passed on via higher prices. This happens occasionally, for example, at the top end of the hotel sector, or private health care.

However, this strategy is plainly uneconomic for most commercial companies. It will mean that a large portion of the firm's resource capacity will lie idle most of the time, particularly during periods of slack demand.

Resource capacity has a cost, even if only an opportunity cost, and during slack demand this spare capacity will not be generating revenue, so without some means of soaking up these 'idle' costs, the firm will bleed to death during periods of slack demand.

Thus, if resources are expensive, and/or cannot be laid off or redirected to other remunerative employment in slack periods, the temptation for most service sector firms is to provide just enough resource capacity (with very little margin) to satisfy 'normal' demand.

In some sectors, peaks may also bring in lower quality custom such as coach traffic to wayside hostelries in summer – these customers may yield a short-term increase in profits – but long-term they will drive valuable regular customers away.

The left hand end of the continuum is beloved by the accounts department who wish to screw down the costs of any operation (and often rightly so).

This left hand option will inevitably result in a poorer quality 'process' when the market peaks, unless some strategy to compensate is employed.

The hope is that in the face of his poor service delivery, either the customer, who represents the valuable core business, will stoically tolerate the inconvenience, or that those customers who do leave as a result can easily be replaced.⁴⁴

The table below sets out some frequent areas of conflict that must be addressed by the service marketer when trying to resolve the need to delight customers, whilst also keeping costs under control.

Neither of the two extremes of the continuum as per Fig 9.2 above are satisfactory, so the successful service marketer is the one who resorts to creating innovative strategies to bridge the demands of the two goals, i.e. delighting customers and doing so efficiently.

The conflicting issues

To be resolved when addressing the ‘resource dilemma’

PROCESS ISSUES	OPERATIONS ISSUES	MARKETING AIMS & CONCERNS
The management capacity	Cap costs by reducing underutilization of resource	Service availability and quality can be compromised in demand peaks
Management of customer queues	Optimize the use of available resource by planning and maintaining customer order and discipline	Firm must not be seen by customers as being unresponsive
The design of service delivery tasks	Reduce error, waste and fraud exploit technology for efficiencies, simplify via standardization	The firm can be seen as unresponsive if service deliverers are too
Layout and design of the service facilities	Improve cost effectiveness and enhance safety and security	Customers must not be confused nor must find the facilities unattractive

FIG 9.3: THE RESOURCE DILEMMA (II)

Coping with resource dilemma

When in-house capacity is enough to cope with the highest probable peaks in demand – the firm can consider...

‘PRICING TO PAY FOR ‘DOWN-TIME’. Although this is the more unusual of the two extremes, this is the more successful precedent. This policy is possible IF, and only IF, the firm’s competitive position⁴⁵ is strong enough. Prices should be high enough to ensure sufficient profit to carry the costs of surplus resource in slack times.

Apart from top-end hotels and private hospitals – other examples of where this can be done is top-end firms in auditing, and in consultancy.

Some of the large auditing partnerships and consultancies employ a strategy that combines the above premium price position with a very low cost of operation. This low cost is achieved mainly by paying comparatively low wages to their graduate trainees (who do most of the ‘heavy’ productive work during peak auditing periods).

These firms compensate for low wages by providing very attractive training packages for their graduate trainees. This training takes place during slack times. The quality of the training given, plus the kudos of having such a high status firm on the trainees’ résumé, ensures that there is always a large queue of new graduates waiting to join.

In return, when the workload peaks it is ‘all hands to the pump’ for (almost) 24 hour/seven day weeks.

Other service businesses use a premium price policy to reduce overall fee carrying workload and employ the hiatus for study, authorship, personal development (training) and networking. If they price too ‘competitively’ their offering soon becomes stale – and all too soon **that is all they can charge.**

PRICE AS A ‘SHEPHERD’

In the context of price and resource, it is common in the service sector for firms to have a pricing policy which differentiates the service according to where it is consumed in the business demand cycle. The aim of such a pricing policy is to move demand from the peaks to the ‘troughs’. Thus the railways will charge more for traveling during rush hours. Airlines will do something similar for peak times of day, and days of the year. Tour package operators and other holiday providers will charge more for their services at the height of the season etc.

Between the two extremes of the capacity continuum the situation is that firms will have a certain amount of spare capacity until demand starts to surge. The more the firm's resource capacity is located toward the right of the continuum (as in Fig 9.2 above), the more of this capacity they will have lying idle and soaking up profit during normal demand.

The principle strategy to handle this situation is to use any spare capacity for other money earning purposes until required by the main business.

An example of this is the way that a particular market research agency ensures access to sufficient office resource when it needs it, yet avoids bleeding to death when it does not. Most of the time in the market research business there is need for only a modest amount of administrative resource. However, from the moment that a project's fieldwork is completed, in the rush to meet the report deadline for the client, the research agency will go into overdrive with a voracious appetite for office resource. The need is for 'round-the-clock', 'seven-days-a-week' access, which means that this resource cannot be outsourced, access must be guaranteed as and when required.

The research agency in mind has therefore set-up its administrative facility as an office services bureau offering book-keeping, word processing and desk top publishing to local businesses, colleges and universities.

The agency accepts work for the bureau only if it has long or loose deadlines, and in return it charges very low prices. This way such work can be set aside when the more profitable market research requires attention. The low price is possible because the aim is only to cover the wages of the administrative staff involved in the office services work and the variable costs.

Other less extreme examples of the strategy of using capacity for other revenue earning work in slack times are:

- Computer catastrophe back up⁴⁶, where the computer bureau providing the service will sell low cost 'block time' on the mainframe when not required by the back-up clients.
- Hotel special event weekends, such as 'Agatha Christie Weekends' where they play the game of 'Who Murdered the Manager'. Or low cost breaks where the accommodation may even be free and the customers only pay for the meals consumed. These, and other attractions, are ways in which the normally spare capacity at weekends can earn some contribution rather than lie idle.

- Airlines using their scheduled route aircraft for holiday charter at times of the year when the business traffic is slack, etc.

However, this strategy gets increasingly difficult to apply as the firm moves towards the intellectual property end of the Service Spectrum. What can a solicitor do in slack times – wait table? Engage in landscape gardening? Run a window cleaning business? Or what?

‘Providing only enough capacity to satisfy normal demand’

As a result of recession, many, if not most, firms will downsize to this point, (i.e. not even enough resource for slack times) and many are loath to take on more capacity subsequently, preferring to out-source even for normal requirements, sometimes to the extent of out-placing this part of the business to other English speaking parts of the world such as India.

At this end of the continuum, in order to successfully delight customers, the service marketer must create a strategy that brings extra capacity on-line as and when required, and to the right quality.

This appears simple to do via one or a combination of such policies as:

- subcontracting excess demand,
- ‘body shopping’ (i.e. staffing-up for the duration of the peak),
- part-time and/or flexi-time workers.

But each of the above has a strong potential to generate undesirable outcomes for the firm, mainly by lowering the quality of experience for the customer when served by the firm at other than ‘slack’ times.

For example, there is a high probability that workers who are ‘body shopped’ will not have the same level of training, motivation and commitment as the rest of the permanent team. This inevitably leads to a lowering of process quality.

This deficiency also frequently applies to part-time and casual workers, especially if the firm has no commitment to them.

Understandably these people will often have a ‘casual’ attitude. It appears not to matter how hard they work; soon they will have to look for yet another job when this one finishes.

A similar situation can apply to sub-contractors: they will not have the same level and content of training or experience, and unless action is taken to address this, they will have different standards.

In addition there is always the danger that the sub-contractor will 'back door' the firm. This is where the client and the sub-contractor will cut-out the principal firm and go direct to each other next time thus saving cost and shortening communications for themselves.

The danger of being 'back door-ed' increases the more the business is located toward the intellectual property end of the Service Spectrum.

However, the problems identified above are not invariably the case, in some industries such as graphic design, audio publications, and to an extent market research, the culture strongly inhibits such behavior. So much work is channeled through the principal firms, i.e. those issuing the sub-contracts, that it would be commercial suicide to even try to cut them out.

A possible strategy to avoid being back door-ed is for the principle to become a well-known source of good profitable work for sub-contractors. This suits a market where the balance of supply and demand is in favour (i.e. there are more firms looking for work than there is work available).

There are proven ways to ameliorate the downside inherent to the strategies of body shopping, or providing part-time/flexi-time work. The principle is to gain the commitment of the people who are used by the firm to provide the required extra capacity. The way to do this is to provide some benefits in addition to the wage for the job. The most successful benefits tend to be:

- Training that improves the worker's market value,
and/or
- Retainers,
and/or
- Guarantees of more work where that came from.

Two examples of being a source of work and training are worth citing:

The first example relates to the horse racing industry.

A typical racecourse will only host meetings (i.e. run horse races) for a very few days per year. So for most of the year, for essential administration and maintenance etc. a racecourse will employ at most only a half a dozen people full-time, whilst for meetings they will outsource many more.

During a race meeting the racecourse will be required to provide race goers (i.e. customers) with food and drink, car parking, on-course betting etc. The course will also need security, cleaning services etc. There is no way that a racecourse can afford to employ these facilities full-time when they will only be generating income for such a small part of the year.

Catering services and on-course betting are sub-contracted⁴⁷ as is security and sometimes even car parking.

However, during the meeting (which lasts from two to five days), the provision of car park attendants and cleaning and ground repair between the ravages of each race day, will have to be obtained by the racecourse hiring people directly for the duration of that meeting. Even though these are relatively humble tasks, the people performing them will frequently come into contact with the race going customers. Thus, it is important that they perform their tasks to the standard required, *and* that their interpersonal behaviors should complement the race day experience (i.e. 'process') for the customer.

To ensure access to the right quality of people, it has been known for a group of racecourses to come together to create an informal syndicate. The syndicate will arrange that there will be few days, if any, when any two of the syndicate will hold meetings on the same day. Between members they recruit a small corps of occasional/part-time workers who will be used by each course in turn to provide these non-sub-contracted tasks on race days.

These workers are guaranteed a certain number of day's employment per year. They are provided with work-wear and training to the necessary standards. The syndicate provides race day transport. Individuals are collected from home and taken to the course by minibus early on race days and returned the same way that evening.

The workers benefit from:

- A guaranteed number of days work per year,
- Work-wear, not wearing out their own clothes,

- Training in a whole range of saleable skills,
- The possible referral of more work in the syndicate whenever it crops up.

The syndicate gains from having access to a motivated and reliable workforce during race days at a reasonable cost.

The second example is an approach to providing extra capacity at ‘special times’. Several airlines in the USA have provided a method of staff coverage for the eventuality of bad weather, which often, but unpredictably occurs in the ‘Mid West’. When a storm hits they will often require emergency staffing levels at those airports that are effected by bad weather (usually heavy snow storms, or freezing rain episodes in the winter months).

The practice is to ‘retain’ former employees of the airline, who act as ‘reservists’ and who agree to hold themselves in readiness on a rota, to be called in to help when required. A practice, which is similar to the English, small town, part-time fireman system.

A note of caution for lean or ‘flat’ organizations is to obtain the healthy internal criticism any business needs in order to prevent becoming stultified by complacency.

Any firm that wishes to address the ‘resource dilemma’ via a strategy of being a ‘flat’ organization, (perhaps also organized around ‘self directed teams’, and ‘out-sourcing’ extra capacity when required at peak times), must be aware that outside suppliers do not normally have the same willingness to criticize and improve their clients as do (secure) employees.

Few outsiders will dare say the unsay-able, as to do so could put their livelihood at risk. Thus a lean and ‘flat’ type of organization brings with it the danger that the firm will not have the benefit of the internal early warning signals, or the outlandish new idea that could put it ahead of the competition. It will not be until the market communicates its displeasure (usually in the form of a disappearing customer base) that anything will appear amiss. By the time this is noticed dramatic damage to the business may have already been done, and it may be too late to effect repair.

An example of this happening was the near demise of the training arm of a major UK professional body (even its chartered status gave no protection). In the ‘80s, the institution ran a very profitable professional training

operation for members and non-members alike. This was conducted at home and abroad.

The job of the institute was to provide the training facilities (including hotel style accommodation for public courses) and database promotion, whilst expensive freelance trainers were used to deliver the courses.

We can see here the insight of the original founders making part of the operation a variable cost as part of their strategy for handling the resource dilemma.

Towards the end of the '80s most of the training faculty were well aware of the danger signals on the horizon. However, as outside suppliers, it was important to stay 'in the good books' of those who hired or fired them, so most said nothing because they knew the tendency of indigenous management is to ignore bad news, especially when coming from those outside the organization (the mentality being to treat them as non team members).

In the early '90s the indigenous management team underwent great changes and the new team of managers, like all new brooms decided to make a clean sweep *without* the understanding of the original founders of the training arm.

Result: by the end of the '90s the facilities had become almost a ghost town for most of the time. This trend was accelerated by a change in the balance of courses from open public courses which brought in profitable business for the hotel facilities owned by the organization, to client specific courses which were not only less profitable, charging by the trainer day as opposed to the participant day, but were making no contribution whatsoever towards the fixed costs of the accommodation facilities.

Make sure this does not happen to you!!

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Exercise

- A. Review your industry over the last two years or so – look for patterns of customer usage and the fluctuating customer demand that provoked this peak or that trough.

What sort of cycle regularly occurs:

- i Usage (e.g. public transport for commuting) is it:
- Daily
 - Weekly
 - Monthly
 - Seasonal?

Or

- ii Some combination of these?

- B. Does this pattern of demand/usage cause your business to have either:

iii Frenetic times with:

- Not enough capacity to cope,
- Many customers either getting poor service, or no service at all,
- Customers not coming back when demand slackens and capacity is no longer under strain?

Or

- iv Very quiet times where your business may have expensive capacity lying idle?

- C. Over a recent typical year,⁴⁸ (say) what is your average load factor (i.e. volume of usage divided by your volume capacity at full stretch)?

NB if this 'load factor' is much greater than 80% over a full business cycle, the quality of the service experience for your customers is indubitably suffering.

If your analysis of 'A' & 'B' above shows your firm is often stretched, and 'C' that your average load factor is well above 80% – there is a need for some firm managerial action – what action do you intend to take – raise prices to reduce demand? Use 'shepherd pricing' (see Chapter 12, Pricing a service

business) to control when demand occurs AND/OR add capacity, if so how will you do this as economically as possible?

If – on the other hand – your analysis indicates no such problems, indeed your average load factor is well under 80%, do you think you are over resourced, or over priced?

Is there merit in considering that you adopt some combination of reducing capacity (thus saving costs) and/or reducing price (thus increasing revenue)?

References

- 44 *This of course neglects the damage done to the business by the 'disappointed advocates'*
- 45 *Such as is enjoyed by the monopolies of the Post Office, or Water Boards.*
- 46 *Sometimes referred to as 'Disaster Recovery'.*
- 47 *Because the subcontractors are buying access to an audience for their business, the more that the audience of race goers who attend the meeting are attractive customers, then the greater the numbers of these sub-contractors will the racecourse have to choose from, and the better the deal that course managers will be able to obtain from these service providers.*
- 48 *If there is no typical year, then take the arithmetic mean of the last five years.*